Note: This statement was prepared immediately after Senate approval of the Act to Relieve the Existing National Economic Emergency by Increasing Agricultural Purchasing Power. Some changes are to be expected before Congressional action is completed.

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A sound solution of the farm problem is only one part, though an exceedingly vital part, of the whole program of national reconstruction. In fact, it is now clearly recognized that an equitable farm purchasing power must be restored if adequate consumption of industrial products is to be revived.

That is why farm legislation has been one of the paramount issues in the present session of Congress. That is why we are today on the verge of putting into actual operation an Act "to relieve the existing national economic emergency by increasing agricultural purchasing power."

It is essential that farmers fully understand this recovery proposal and learn how it will affect them when put into operation. They need to know how it may rescue agriculture from the vise of low prices and burdensome debts. Particularly, they need to know exactly, step by step, how this is to be accomplished. For in the last analysis, the farm act is not a ready made, self-operating panacea. Rather, it is a new opportunity that will succeed in just the proportion that farmers and other cooperate in making it a success.

The major farm organizations joined with economists and other specialists in framing this legislation. It was drawn out of a wealth of experience

and study -- not in defiance of the present economic situation, but with that very demoralized condition in mind.

Now, the devastating turmoil of the world's economic system has been so thoroughly discussed and publicized, that there is no need to review it here. However, certain basic difficulties must be brought into bold relief to show how the farm act proposes to attack them.

The outstanding fact is that changed conditions have left American farmers stranded with an unwieldy production of the major agricultural products, chiefly cotton, wheat, hogs, and corn. This is an after-math of the World War. Under the stimulus of war prices and patriotic appeal farmers increased their production. Subsequently, partly because of inherent difficulties in farming itself but mostly because of our national policies over which the individual farmer had no control, chronic surpluses persisted. For a decade agriculture languished. Then with the crash of 1929, foreign import restriction mounted, our exports dropped sharply, and mountainous surpluses backed up into the home market. Farm prices rode a toboggan to ruinous depths.

Many of the damaging post-war changes that led to a loss of a large share of our normal foreign markets could have been avoided or at least weakened in their unfavorable effect on American agriculture. For example, when we became a creditor nation we might have elected to permit our debtors to pay us in goods. We did not choose to do this. European nations, acting only as debtor nations could under the circumstances, fell back on a program of self-sufficiency, and began to cut down on imports of our products, particularly our farm products. This was especially destructive to agriculture. By means of production subsidies, and by tariffs, import and exchange quotas to keep out foreign goods, they encouraged their own farmers to increase to the limit the production of hogs, wheat, and other farm products. We have, as a result, seen the amazing condition of wheat in some foreign

countries selling for all the way from one dollar to two dollars a bushel, while our own wheat offered at the ruinously low world price couldn't find a buyer.

For a while the loans of American money abroad, particularly in the case of Germany, helped keep up an export demand. But such a situation could not continue. We were merely taking money out of one pocket and putting into another, and trying to fool ourselves into thinking that we were running a profitable business.

Then the crash of 1929. European nations intensified the very things they were doing as debtor nations for years. Import and exchange quotas operating to the detriment of our export trade mounted in severity, and this method of inducing self-sufficiency spread to other nations. At present, for example, only one European country, Denmark, does not have tariffs against imports of wheat, and even the Danish government, through a new regulation of foreign exchange dealings, really has come into control of flour and grain products importations.

A depreciation of foreign currencies has further demoralized foreign trade.

The net result of all of this is that a once profitable foreign outlet has partially dried up, and our own storage houses for grain, cotton, and other products have bulged accordingly.

The existence of our surplus problem is best evinced by the vast carry-over of the major commodities. We now are carrying two to three times as much wheat as we normally do in trade channels. We have on hand a cotton carry-over of at least three times normal -- a carry-over so large that we could cease to grow cotton for a year and still be able to supply the demand. Production of tobacco in 1932 was reduced considerably from the level of 1931, but stocks of old tobacco increased so that the total supplies at the beginning of the 1932-33 season showed only moderate declines from those of a year earlier. The present total supply of burley, for example, is equivalent to about three years' disappearance, whereas the usual relationship is for supply to be only about twice as large as disappearance.

Hogs are in a bad situation because of the swift shrinkage of the foreign

lard market, notably of Germany. There is likelihood of an increase in total pounds being offered for market here in the United States, in spite of a decrease in numbers farrowed in the past year, because of the unusually large corn crop last fall. It is estimated that the present demand, here and abroad, would not render a reasonable price to the farmer unless the quantity offered for market is reduced by about one-fifth. It is true that heavy supplies are being absorbed by the home market, but only at a disastrously low figure. The surplus here is just as real as if it was a huge accumulation of stocks.

In dairy products, we are very near to spilling over on an export basis, in which case, we would be in merciless competition with New Zealand and other heavy dairy exporting countries. It follows, of course, that dairying, being still so near a balance of production and consumption domestically, would have much less of a surplus problem with any general revival of industrial activity. But as long as other types of farming are comparatively worse off, there will be a gradual swing to milking cows, with the formidable consequence of greater surplus.

If our foreign trade could be revived immediately by negotiating reciprocal tariffs and making intergovernment debt adjustments, there might be some chance for American farmers to escape adjusting their production. But while such is actually contemplated already by the Administration, the process would necessarily have to extend over several years. This is too long a period with agriculture in such a desperate condition. Moreover, mere wiping out of trade restrictions would not immediately, if ever, take out of production the many acres of farm land which have been pushed into cultivation in Europe during the past few years.

The job, therefore, is to adjust production in these basic commodities so as to restore a working balance between production and effective consumption. This is not to say that the United States should withdraw entirely from the foreign market; it is merely to say we must cut the cloth to fit a new situation. Of course, under present restricted conditions, such balancing, except in the case of cotton, would

bring us down considerably closer to a straight domestic consumption basis. The farm act recognizes this necessity, but also leaves the thing flexible so that in case foreign demand does pick up, farmers can readjust production in the same proportion without endangering the parity price on the domestic quantity which the act is primarily designed to re-establish.

Agriculture cannot longer go in impoverishing her soil and keeping her citizens busy at raising unsalable excesses which the world will not and cannot take except at starvation prices. For when we try to force an unwanted surplus on a saturated world market, we get a terribly low price, and it is this world price which controls the price on the quantity consumed within our own country. Excess production is a type of waste through unnecessary work which is fully as bad from a social and economic standpoint as idleness among city workers. Over-employment to produce an excess is the opposite of under-employment which fails to produce enough -- but both are forms of economic waste.

If we are to approach a parity price for agriculturl products -- that is, sell at a price level which holds the pre-war relationship with things farmers buy -- we are up against the proposition of getting our production of such crops as wheat, corn, hogs, tobacco and cotton down on a par with effective consumption. As things stand, this means that we must retire around forty million surplus acres from the raising of major cash crops. The only other alternative is to resort to the law of the jungles; to let our present production run on in disorder until so many farmers are starved out that the survivors with the ensuing smaller production will be able to get back decent prices.

Now the new farm act recognizes the two big things that ail agriculture: First, low prices; and second, the inability of agriculture to eliminate unaided the causes of these low prices, particularly the major cause, an unwieldy production of the basic commodities.

The adjustment provisions of the new farm act are specifically designed to correct these deficiencies. The act will enable participating farmers to adjust

production by rewarding them with benefit payments, and the farmers' income will be increased toward an equitable basis because these benefit payments will make up as nearly as possible for the amount that the regular market price falls short of the equitable price. The act provides that these benefits shall be paid to the participating farmers as soon as possible after the act goes into operation, say, practically atthe same time that the producer acts to adjust his acreage or his total production.

Thus the farm act gives prompt results. Under it, the participating producer will not have to wait for the more gradual improvement in the open market price, which eventually would follow a general adjustment in production. Instead, his benefits will come around the same time that he adjusts production. Practically speaking, this is only guaranteeing results that would come anyway, but from the farmers' standpoint, it makes the plan still more attractive. And from a national standpoint, this prompt increasing of the agricultural purchasing power is now regarded as desirable for a general stimulation of all business.

A great many people seem to have become needlessly confused by discussion on the methods of bringing about this production adjustment and the payment of benefits to farmers. In reality, the principles governing these methods are comparatively simple. After producers have voluntarily taken so much land out of the crops on which the plan will operate (the necessary percentage of reduction to be determined by the United States Department of Agriculture after careful consideration of foreign and domestic conditions) or after they have reduced the quantity of the commodities grown for market, they will be entitled to benefit payments which, when added to the regular market price they receive for the commodity, will give them as nearly as possible a total return equal in buying power to the income received for the same quantity of the commodity in the comparatively stable pre-war period 1909-1914 (excepting the price levels for tobacco, milk and its products which will be returned to the post war rather than the pre-war relationships). The pre-war parity, that is, the ratio between the prices the farmer re-

ceived and what he paid in the pre-war period, is the most practicable gauge available for equality on most of the basic farm commodities. In this period, we had attained after a century of adjustments, relatively stable and fair returns to agriculture and industry; the best balance, between major producing groups, in terms of prices, production, and returns on investment. The nation was then on an even keel.

The funds for these benefit payments? At the outset, the Secretary of Agriculture is permitted to draw on an appropriation of $100,000,000 from the Federal Treasury for rental and benefit payments and for administrative expenses. In other words, government credit will be utilized to make the act effective without delay.

The regular fund for benefit payments will be accumulated by the Treasury through taxing each unit of basic farm commodities (covered in the act) processed for human consumption. This job of collection will be in the hands of the Bureau of Internal Revenue. The funds obtained in this manner then will be turned over to the Department of Agriculture for disbursement to farmers.

Although it is not definitely worked out as yet,, there may be a lag between the time the farmers get their benefits and the date the processing tax actually will apply. During this intermission, if there is one, farmers will be spending their extra income, and hence will stimulate business and employment, thereby increasing the ability of the consumers to handle any portion of the processing tax that is passed onto them by the processors and distributing agencies.

The processing tax for a given marketing period shall not exceed the difference between the average going market price and the price it ought to sell for to be on the equitable parity with things farmers buy. This parity price is known in the act as the fair exchange value of the commodity. In general, as the market

price approaches the fair exchange value of the commodity, the processing tax on this commodity is decreased proportionately. When the regular market price reaches parity, the processing tax will be removed.

During the six-months period, ending March 31, the average fair exchange value of wheat would have been 93 cents per bushel. The actual farm price for the United States for the same period averaged approximately 33 cents per bushel. Thus, in order to have obtained a parity return for the producer the maximum processing tax would have been 60 cents per bushel.

Parity! It is the word of most significance in the whole adjustment section of the farm act. In order to understand the real meaning of parity it is necessary to differentiate fully between price relationships and prices. For example, getting pre-war prices on farm products does not necessarily restore pre-war relationships bdtween the farm price level and the price level of things farmers buy. A pre-war price of $7.50 a hundredweight on hogs would not restore parity to the hog farmer, unless the things he buys also were no higher than pre-war. On the other hand, if things farmers buy should come to sell for one-half of their pre-war figure, hogs would be on a parity if they sold for one-half of their pre-war figure. It is the ratio or relationship of the farmers' "selling price level" to his "buying price level" that counts. It is what makes or does not make parity.

By what means will production be adjusted and farm income raised toward parity? There are several methods allowable under the bill. The Secretary of Agriculture may lease the acreage of land necessary to effect the desired reduction in production of the several basic commodities. In this case, the participating farmer would get immediate benefit in the form of a rental payment and permanent benefit in the subsequent rise in prices which production adjustment eventually brings about.

Or the Secretary may employ the original allotment method; that is, reward farmers who adjust production with a benefit payment to give them a fair return on that percent of their average production which is consumed here in the United States. Under this plan, the benefit payments as nearly as possible, would be large enough to make up the difference between the market price that the farmer actually gets for the domestic portion of the crop and its fair exchange value. Obviously, as the market price approaches the fair exchange value, this benefit payment would be reduced accordingly.

By both controlling production and conferring benefits on all who participate, the new farm act thus stops up two inherent loopholes in practically all other farm relief plans. Former plans either attempted to confer benefits on all without being able to control production as in the stabilization activities of the Federal Farm Board, or they attempted to control production but had no device for limiting benefits to participants, as in the case of the cotton and tobacco cooperative "insiders" who cut acreage only to see the benefits go to "outsiders" who simply grew all the more.

Under the new act, if non-participating producers try to defeat the plan by refusing to adjust production or by actually increasing production, they only defeat themselves because they are left at the mercy of the regular market price. At the same time, the participating producer could get his equitable return just

the same because the processing tax which makes up the benefit fund could be increased as the spread increased between the actual market price of the commodity and the fair exchange value. This is a very important point. Only the man who participates benefits.

A third way in which the aims of production adjustment and parity price restoration may be realized under the act is through trade agreements with the processors and others handling the commodity. The Secretary of Agriculture may work out agreements with these agencies to raise the regular market price as near parity relationship as practicable, providing a sufficient number of farmers also will make certain production adjustments.

Since the benefits under this method would come through a rise in the regular market price itself, no processing tax as such would be levied and collected by the government. The raising of the market price would be equivalent to the processors paying a tax.

An additional alternative method for achieving the aims of the act applies to cotton only. Under it the Secretary of Agriculture may arrange for producers to reduce their production voluntarily and receive benefits under what is known as the Smith option contract. Under this provision, in return for reducing his 1933 cotton production thirty percent below his 1932 production, the cotton farmer would be given an option on an equal amount of cotton now held by the government on farm board account.

The cotton farmer would have the option to buy a quantity of this stored cotton, equivalent to the quantity which would have been raised on the land he takes out of production, and to sell it on his own account any time up to January 1, 1934. The producer, therefore, would stand to profit by any rise in the market in this period above the option price, plus incidental carrying charges.

The cotton to be used in this option plan will be obtained from the

Federal Farm Board and from the Crop Production Loan Office by the Secretary of Agriculture and the Secretary in turn will sell the options to cotton farmers who participate in the plan. The Secretary will not have to pay more than the current market price for the cotton; consequently, the cotton farmer will get an option to buy the cotton from the Secretary at the same price.

The Smith cotton option plan, then, gives the producer the opportunity to profit on a quantity of cotton equivalent to the quantity he ceases to grow. This is not quite the same as receiving actual cash benefits, but the final outcome will not be greatly different. The producer, by reducing production, will make way for price improvement on the quantity of cotton he actually raises and at the same time will take a profit on the quantity he holds on option.

If all prices fell so that cotton, even though it still held its equitable relationship with other prices, was below the option price, would the cotton farmer have to pay the full option price and take a loss in the subsequent sale of this cotton he had agreed to buy from the Secretary of Agriculture? No. In no event would the producer be held responsible or liable for financial loss incurred in the holding of such cotton or on account of carrying charges therein.

As previously indicated, the producers of a certain basic commodity may participate under one of several plans. This flexibility is a commendable feature of the Act. No one system of balancing production with consumption is adaptable to the production and marketing of all agricultural commodities. The rental plan which issues the benefits directly in return for taking acreage out of production may work best with one commodity; alloting benefit payments on that percentage of the farmers' production which is consumed domestically, in exchange for as much reduction as is practicable, may be more applicable to another commodity. Or marketing agreements with processors, associations of producers and others may suffice to raise the regular market price toward parity in another commodity.

The act also is flexible as regards the application of the processing tax. It is recognized that because of the present great disparity between farm prices and other prices, a comparatively large processing tax would have to be collected at first if funds were to be accumulated for making benefit payments sufficiently large to immediately raise the farmers' return to parity. And large processing taxes might have adverse effects on consumer demand. So it is provided in the act that the processing tax can be applied gradually - a matter to be determined with great care following public hearings with all groups concerned.

Of course, the processing tax will be adjusted from one marketing period to another so that it will not accumulate more than the quantity of money needed to raise the farmers return to parity. The consumer can appreciate this provision because it protects him against paying more than a parity price for agricultural commodities, so far as the tax is concerned. In other words the parity provision of the Act is not only a desirable goal for farmers; at the same time it is from the consumers' standpoint a limiting factor beyond which the Act will not operate.

Another flexible feature protects the taxed basic commodity from disadvantages of excessive competition. The Act provides that if the collection of the processing tax on a basic commodity should result in any perceptible shift of consumers' demand to another commodity, the Secretary may levy and collect a compensating tax on the competing commodity. This would prevent disadvantages to cotton from rayon competition, for example.

A further provision exempts from taxation that percentage of the commodity which is used in the manufacture of products of low value, such as bran in the case of wheat, if the imposition of the processing tax would prevent in whole or in large part the use of the commodity in the manufacture of such products.

Quantities of the commodity which are delivered to organizations for charitable distribution or use shall be exempt from the tax. Exemption also may

be extended to quantities of the commodity processed by or for the producer; home-killed meats, for example.

A question has been raised as to the power of the Secretary of Agriculture to handle unfair practices or such over-charging of the consumers by middlemen as will defeat the purposes of the act by seriously affecting consumer demand. The Secretary has an effective weapon to deal with such instances in the licensing power. If it becomes necessary to use this power on the producers' behalf, he may license processors, asssociations of producers, and others engaged in the handling of any basic agricultural commodity. Then such licensees that frustrate the working of the act will be liable to penalty.

Will it be possible to levy the processing tax without an unfavorable reaction from consumers, assuming that millers, packers, textile manufacturers and other processors will attempt to pass the full tax onto the consumers? Little disturbance should result because even the total price paid the producer for each unit of the raw commodity is a relatively small percentage of the retail price paid by the consumer. In the case of wheat, for example, a processing tax of 60 cents a bushel would increase the price of a loaf of bread by only about one cent. And it must be borne in mind that collection of the full processing tax (fair exchange value of the commodity minus the average market price) is not contemplated at the outset. Moreover the tax probably will not be applied until after the producers have received their benefit payments and subsequently have stimulated general business by spending this extra income.

For another thing, there is no conclusive evidence that all of the processing tax will be passed on to the consumer. It is possible that the spread between the farm prices and retail prices could be reduced sufficiently throhugh elimination of wasteful competitive practices, under trade agreements with the

Secretary of Agriculture, to permit raising of the farm price without a corresponding rise in retail prices. This would be enhanced with any improvement in the general price level, because then the intermediate fixed charges would become a smaller percentage of the price set on the manufactured commodity.

As for the producer, there is nothing to compel him to participate in the operation of the act. While it is a fact that most effective results for the whole of agriculture would be had if practically all producers of the involved commodities should participate, each producer is left free to decide for himself if he will adjust his own production and receive the benefits which this national plan provides.

So much for the general aspects of the adjustment section of the new farm act. The exact details of how the act will work on specific commodities cannot be learned until the regulations are drawn up. Public hearings for the representatives of all parties interested in the production, processing, and distribution of each commodity must be held before there will be definite regulations on the method for production adjustment, amount and date of benefit payments to participating farmers, amount and frequence of the processing tax. These hearings will be included among the first business handled after the act goes into operation.

Undoubtedly objections may be raised against the new farm act just as objections may be raised against any plan. The plan is open to the charge that it depends for success on some uncertain things, such as general participation of farmers. But it must also be remembered that there are hundreds of objections to the present situation. If we keep on with the present unbalance between production and effective demand, we may suffer from low prices for a number of years to come. Apparently, the time has come when we must give up some of our pioneer individualism and subject ourselves to some degree of planned production for the common good of all.

To restate the situation, our scale of production is badly out of joint with actual conditions, mostly because of a severe maiming of our foreign trade. Unfortunately, this obstacle will not be removed promptly enough by international negotiation, even if successful, nor will an industrial revival in this country take up the necessary slack. Although many people are of contrary opinion, domestic consumption of the major agricultural commodities has not fallen off so very much from the pre-depression levels, largely because farmers have sold at very low prices. Relief agencies have helped sustain consumption among the unemployed.

Many farmers fully appreciate the need for production adjustment, but they cannot afford to try it alone. Many farmers have deserted good rotations and proper soil conservation plans to increase production of cash crops in a heroic, but vain effort to make expenses. They need the assistance which the new farm act provides for getting back to an orderly program.

By combining in a nation-wide adjustment under the act, farmers of the United States would be striking through to a restoration of parity on farm prices and towards a sounder utilization of their farm resources. They would get a fairer share of what national income there is now. They would get set to keep on securing the same proportionate share as there occurs a general revival of all industry.

Note to editors: The farm mortgage relief provision of the farm act will be administered first by the Farm Loan Commissioner and subsequently, when the Farm Loan Board is consolidated with other related agencies, by the Governor of the Farm Credit Administration. A review of that portion of the Act is therefore not included here. No doubt you will receive information from the proper sources.

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